



MULTI CHANNEL MERCHANT

New Digital Fulfillment Strategies Help Meet Customer Expectations

By **Tim Parry**

The retail landscape is changing. Consumers are bypassing retail stores and taking their business online. They want fast, free delivery, and they want to be kept in the loop each step of the way. In large part driven by Amazon this is the new normal, and these service levels become more influential in the buying decision.

This changing landscape is expected to bring a more uncertain U.S. retail trade environment in 2017 requiring retailers to explore ways to create speed and agility in their supply chains. To stay relevant, retailers must collaborate more, use more sophisticated technology and adopt new delivery models.

In an attempt to redefine the customer experience, Amazon has invested significantly in its logistics infrastructure, and grown its fulfillment operations from 17 U.S. distribution centers in 2010 to 95 in 2016, covering every major metropolitan area. While Amazon has offered two-day delivery to its Prime members for several years, it is shifting its focus to next-day and same-day delivery, and even offers its own controlled last-mile delivery service in many U.S. markets.

All other online retailers are being held to these new expectations by consumers. The best response to this new reality for merchants depends on many factors including type and size. Brick-and-mortar merchants are leveraging store infrastructure to speed up delivery times, both by shipping online orders and offering in-store pickup. Further, they are also leveraging other distribution nodes in their network for ecommerce transactions. Medium-sized pure play retailers are pushed to use a regional footprint of multi-user and third-party fulfillment (3PL) providers in combination with their own distribution centers. Small retailers, if they can afford it, are using Fulfillment by Amazon or some other sort of transactional fulfillment service.

Retailer strategies have changed from having one or maybe two centralized distribution centers to three or

four regional ones to cut down transit times. This has created a much more fragmented fulfillment landscape.

As customer behavior changes, traditional retailers are scrambling to fulfill customer orders coming from anywhere and going to anywhere, around the clock – what we've come to call omnichannel. According to Aberdeen Group, 60% of retailers were shipping to or through a traditional distribution center in 2016, down from 80% in 2014, and 61% were using ship-from-store fulfillment methods, up from 50% in 2014.

The growing on-demand, instant gratification consumer mindset is also creating opportunities for a raft of new market entrants all angling to grab a piece of the action. From disruptors like Deliv, UberRush, Instart and Curbside to Postmates, Roadie and Dropoff and many more, merchant shippers have more choices than ever in a highly fragmented marketplace. Regional carriers like OnTrac, Pitt Ohio, Eastern Connection and LaserShip are also playing a role in next-day and two-day residential delivery. This is forcing larger incumbent carriers to get more creative in terms of flexibility, offerings and service levels.

Because of the seismic shifts taking place in retail – witness the ongoing drumbeat of store closings in 2016





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and 2017 as malls empty – fulfillment strategies are evolving and companies are struggling to figure it all out. While not the sole culprit in this scenario, Amazon is continually cited as the primary change agent, innovating and expanding its frontiers as it turns up the heat on everyone else.

It's Time to Invest in Fulfillment

As daunting a task as it may seem, merchants need to invest in their fulfillment strategies, now more than ever.

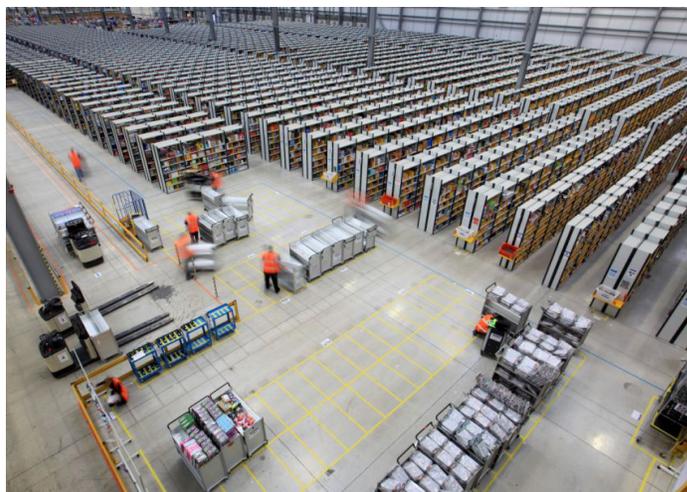
A lot of retailers get paralyzed by the complexity of what's ahead of them, says Craig Morris, Vice President of Strategy and Product Management for DHL eCommerce. Morris says retailers are not going to solve it themselves overnight, and they're not going to recreate Amazon.

A lot of retailers overcomplicate their strategy and make it difficult to even get started. Or, Morris says, they simply take the way they have always approached fulfillment, and try and replicate it in multiple locations with a cost-prohibitive solution that doesn't allow for trial and error.

Morris says ecommerce retailers can quickly reinvigorate their fulfillment technology in a step-by-step basis without the need to invest millions of dollars up front. Then they can start to define longer-term, more-sustainable strategies based on those learnings. 3PLs like DHL eCommerce bring order management system (OMS) technology to the table, and a fulfillment network, that can allow a merchant to get started in a pragmatic fashion.

New Digital Fulfillment Strategies in Play

Nikki Baird, Managing Partner at Retail Systems Research, sees the DTC fulfillment space at a crossroads. "It's undergoing a lot of disruption, and some of it is coming from visibility issues," Baird says. "Retailers are trying to figure this out and it's like the Wild West." There are complex transformations that require technical and physical changes across the supply chain, and can take years to implement. These alterations include:



Dynamic Experiences at Checkout

There is a contradiction in the expected ecommerce experience between major U.S. metropolitan areas and the rest of the country. Free shipping for someone in Manhattan can look very different than free shipping for someone in remote, rural or less densely populated locations.

Consumers in major metro areas may get a same-day or next-day delivery offer because the retailer has a distribution center just a few miles from her home, while someone in Boise does not because the distribution center is thousands of miles away. Enabling dynamic shipping options successfully requires the retailer's web shop and checkout process to be able to make these decisions in real time and present the appropriate options for each shopper.

Regionalized and Localized Fulfillment

Distance equals time and money when it comes to shipping ecommerce packages. To cost effectively offer same-day or next-day delivery, or even two-day shipping in some cases, retailers need to position inventory closer to the consumer. Holding stock locally can make sense in major population centers such as Los Angeles, New York, and Chicago.

One byproduct of this trend is an increase in fulfillment outsourcing. Many retailers and merchants don't have the resources or capital to build out warehouses all over the country (like Amazon). They are moving into multi-user fulfillment centers where many customers share the same space, capital, and labor. In turn, they are leveraging each other's volumes for the required



economies of scale to keep their fulfillment costs down, and to reap the benefits on the shipping that the proximity provides.

Some of the facilities are also often transactional in nature, or pay as you go. They have transactional fees for receiving, storage (based on the amount of square feet used) and outbound pick and pack. Given the volatile and seasonal nature of ecommerce, removing the fixed cost burden is a huge relief for retailers. Also, 3PLs are better able to manage scalability than the retailer as they can spread the real estate and utility risk across a number of customers.

Whether it's through dedicated digital facilities, multi-user 3PL centers, converting wholesale and retail distribution centers to support B2C, shipping from store, or even drop shipping directly from vendors, merchants are finding ways to localize.

Order Management and Inventory Visibility

The key to bridge dynamic experiences at checkout with regionalized and localized fulfillment starts with the ability to see the entire breadth of cross-channel inventory in real time, and then use that information to meet consumer demands. This includes determining the right options for the consumer during checkout as well as routing and processing the order from the most appropriate fulfillment location to enable fast and cheap delivery while minimizing shipping costs.



OMS technologies are the key to executing these strategies efficiently and effectively. For those merchants selling across multiple channels – for example their own ecommerce site, Amazon, other marketplaces or resellers – each with its own unique service level expectations, consolidating these channels and optimizing order execution is enabled through the OMS.

Multi-Carrier Dispatch

Working with more than one carrier is an essential capability moving forward. Crowd-based carriers and metro couriers are an important channel for affordable same-day delivery. Carriers such as DHL eCommerce can deliver more affordable shipping of lightweight parcels and affordable two- to three-day delivery. And regional carriers can provide less-expensive solutions for next-day and two-day deliveries to select zip codes.

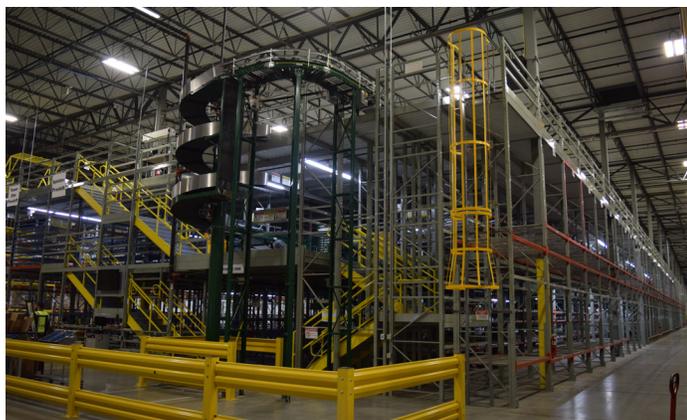
As the fulfillment landscape fragments so will the carriers used. In 2012, only 25% of B2C shippers in the U.S. used more than one carrier, according to Colography Group. By 2015, that number had grown to 35%. The 2015 figure is more pronounced with the larger merchants, with 45% of companies with more than 100 employees leveraging multiple carriers. By the end of 2017, DHL eCommerce expects that number to grow to over 60%.

Multi-carrier strategies are critical to both speed and cost reduction, and retailers must adjust their distribution strategies as a result. Supporting multiple carriers can have large implications on the physical layout and dispatch process of a fulfillment center.

Rate and Service Shopping

With multiple shipping options, merchants need to be able to make intelligent dispatch decisions. For a given service level (e.g. three day), and a given order profile (size, weight, origin ZIP code, destination), the merchant needs to be able to choose from a variety of shippers to accommodate the service level at the lowest possible cost.

Localization offers a huge opportunity to downgrade shipping type while maintaining or even improving service levels. In the old world, two-day shipping might have always resulted in a routing of a two-day express product. In the new world, evaluating the expected date of delivery, location of order fulfillment, location of



delivery and order parameters allows for the possibility of a much lower cost carrier and product selection while still maintaining consumer expectations on delivery.

Some retailers code this logic directly into their warehouse management systems (WMS). Others choose to work with third-party shipping technology providers. Rate and service shopping are very important capabilities today, both in meeting consumer expectations and controlling costs, and will be increasingly important moving forward.

How can DHL eCommerce help with fulfillment needs?

DHL eCommerce has responded to this trend by building out a network of shared-use fulfillment centers several years ago. The network already includes U.S. facilities in Columbus, OH, Southern California, and includes international locations in Mexico, Australia, Hong Kong, Germany, and India. Upwards of five new centers are earmarked to be opened in 2017, including one in the New York area.

All locations are built on the same platform so that a single integration brings the entire network to the merchant's disposal, with consistent processes, quality and SLAs. The solution is targeted to retailers shipping between 300 and 15,000 orders per day out of each facility, and supports both B2C and B2B transactions. Powered by the DHL Order Management System, the shared-use facilities can be combined with more complex fulfillment strategies that leverage DHL-managed dedicated ecommerce warehouses, drop ship vendors and other third-party inventory nodes.

The fulfillment solution provides all the value-added services and industry leading service levels that customers need, including:

- Standard integrations with commonly used ecommerce platforms and marketplaces, standard API access, simple file exchange, as well as options for customized integrations to existing systems
- Inventory visibility and order orchestration across the entire global network of facilities
- Omnichannel support which includes the ability to interface and orchestrate orders with external inventory locations, including drop ship vendors, existing customer facilities, or even store networks
- Best-in-class warehouse service levels including 24 hour inventory putaway, and same-day shipping
- A variety of domestic and international shipping service levels
- Transactional "pay as you go" pricing with no fixed costs and no upfront capital requirements

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